

Idaho's Endowment Lands — Background

When Idaho became a state in 1890, the Admission's Act granted the new state about 3 million acres of federal lands for public school support (sections 16 and 36 of every township) and another 650 thousand acres for support of eight other endowment beneficiaries. The State Constitution placed the management of these lands into the hands of the five-member State Board of Land Commissioners composed of the Governor, Secretary of State, Attorney General, State Controller, and Superintendent of Public Instruction. The Constitution gave the State Treasurer the responsibility for management of the financial assets generated by the endowment lands.

In 1905, the Legislature created the Department of Lands to support the Land Board. Over the years the board sold and exchanged properties so that about 2.1 million acres of public school endowment lands remain and about 350,000 acres of the other eight beneficiaries land remain. In addition to land sales and mineral revenue, the Land Board chose to deposit timber sale revenue into the permanent endowment. It chose to place lease revenues into the income funds for annual distribution along with the earnings from the permanent funds.

Institution	Idaho Land Grants	Remaining Acres	Percent of Total	Percent Remain
Public Schools	2,982,683	2,093,078	85.0%	70.2%
Agricultural College	90,000	33,407	1.4%	37.1%
Charitable Institutions	150,000	78,188	3.2%	52.1%
Normal School	100,000	59,494	2.4%	59.5%
Penitentiary	50,000	29,024	1.2%	58.0%
School of Science	100,000	75,397	3.1%	75.4%
Mental Hospital	50,000	31,120	1.3%	62.2%
University of Idaho*	96,080	55,852	2.3%	58.1%
Capitol Endowment	32,000	7,222	0.3%	22.6%
Total	3,650,763	2,462,783	100.0%	67.5%

* Includes 46,080 acres granted Feb 18, 1881 to University of Idaho

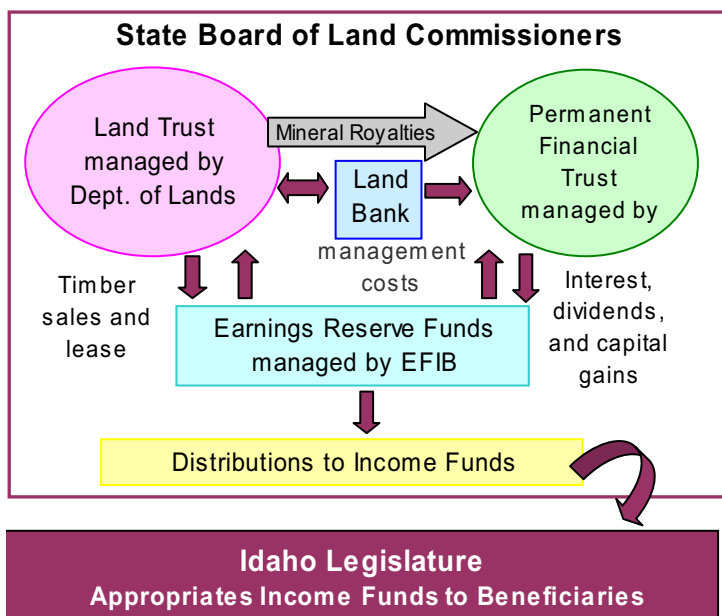
- ◆ Public school endowment lands comprise 85% of the total endowment lands.
- ◆ Nearly 70% of original or exchanged endowment lands remain.

Source: Idaho Department of Lands

Endowment Reform

In 1969 the Legislature voiced its desire to improve the performance of the State Treasurer by creating an Endowment Fund Investment Board (EFIB) with powers to invest the financial trusts. However, the Constitution limited the types of investments to bonds and other types of "loans". That same year, the Legislature approved a 10% land improvement fund from endowment earnings.

The 1998 Legislature approved four pieces of legislation, the final piece effective July 1, 2000, that became the latest "Endowment Reform". Changes to the constitution allowed the EFIB to invest in the stock market, authorized a land bank, and allowed for payment of administrative costs from earnings. Statutory changes put control of the EFIB under the Land Board, established an earnings reserve fund as the mechanism to distribute earnings, put timber sale revenues into the earnings reserve, and gave the Land Board the power to determine the amount of distributions to the beneficiaries. Separate reform legislation for the Capitol Endowment did not include an earnings reserve fund.



- ◆ The Land Board determines the annual income fund distributions to public schools and the seven pooled endowments. The distribution to the Capitol Endowment is statutory.

FY 2003 Endowment Activity

The Public School Endowment is the largest of the nine endowments. The Endowment Fund Investment Board refers to seven smaller endowments as the "Pooled Endowments" and due to statutory differences, the Capitol Endowment is referred to separately.

Beginning with a market value of \$683.2 million, the Department of Lands added \$47.7 million from land activities to the Public School and Pooled Endowments. Administrative costs were \$14.3 million for the Department of Lands and \$3.3 million for the Endowment Fund Investment Board. Income from the EFIB of \$17.4 million and accruals and market losses of \$20.3 million netted to a loss of \$2.9 million. This is the first year that accruals have been included in the Market Value calculation. Accounting for cash and accrued distributions of \$57 million to the beneficiaries, the ending market value of the public school and pooled endowments was \$29.7 million or 4.3% less than at the beginning of the fiscal year.

Total of Permanent Fund and Earnings Reserve Fund

Institution	Market Value 6/30/02	Lands Contrib	Admin Costs	Distrib to Benef*	EFIB Gains (Loss)	Market Value 6/30/03
Public Schools	\$464.9	\$33.8	(\$11.9)	(\$37.1)	(\$10.0)	\$439.8
Ag College	11.7	.1	(.3)	(1.1)	.4	10.7
Charitable Instit.	41.7	2.4	(1.1)	(4.1)	1.4	40.3
Normal School	40.1	4.0	(1.0)	(3.7)	1.3	40.6
Penitentiary	16.5	1.2	(.4)	(1.4)	.5	16.5
School of Science	47.6	1.3	(1.2)	(4.3)	1.5	44.9
Mental Hospital	21.4	2.9	(.5)	(1.9)	.7	22.6
Univ. of Idaho	39.3	2.0	(1.0)	(3.5)	1.3	38.0
Total	\$683.2	\$47.7	(\$17.6)	(\$57.0)	(\$2.9)	\$653.5

*Includes the July 2003 distribution to public schools.

- ◆ The Department of Lands got \$14.3 million back for administrative costs and the EFIB used \$3.3 million.
- ◆ Accruals reduced the FY 2003 ending market value by \$9,351,649. This is the first year accruals have been included in the Market Value calculation. Market losses, accruals and EFIB costs amounted to a 1% reduction in the beginning market value.
- ◆ The FY 2003 earnings before accruals were 1.7%.

Endowment Distributions

The long-term goal of Endowment Reform is to increase the returns to the beneficiaries. Fiscal year 2001 was the first full-year after reform. The fiscal year 2001 distribution to public schools was up \$1.9 million or 4.6% from FY 2000. The pooled endowments averaged a 7.9% increase. The FY 2002 public school distribution was up another \$3 million or a 6.7% increase while distribution changes averaged 5.9% for the pooled endowments.

Unfortunately, FY 2003 was another story. The Land Board reduced projected distributions to public schools by \$4.4 million (9.1%) and the pooled beneficiaries by \$2.0 million (9.3%) from FY 2002 levels. This was due to a combination of FY 2001 market losses and a change in the spending rule from 8.5% to 8% of the three-year average market value of each permanent fund. Then the EFIB fell short of the FY 2003 Public School appropriation by \$6,256,500 (14.4%).

The FY 2004 appropriation further decreased overall distributions due to FY 2002 market losses and a change in the spending rule to 7.5%. The pooled is budgeted to fall by 12.9% and public school is expected to rise by 1.9% from the actual FY 2003 distributions. However, the EFIB has indicated FY 2004 public school distributions may also fall short.

Detailed Endowment Distributions to the Beneficiaries

Institution	FY 2002	FY 2003	Approp. FY 2004
Public Schools	\$47,675,000	\$37,056,500	\$37,750,000
Agricultural College (U of I)	1,280,000	1,139,000	960,000
Charitable Institutions			
4/15 Idaho State University	1,246,133	1,085,333	914,700
4/15 St. Juvenile Corr Ctr.	1,246,133	1,085,333	914,700
4/15 State Hospital North	1,246,133	1,085,333	914,700
5/30 Veterans Home	778,833	678,333	571,700
1/30 School for Deaf /Blind	155,767	135,667	114,400
Normal School			
1/2 ISU College of Ed	2,034,000	1,847,500	1,597,500
1/2 Lew is-Clark State Col.	2,034,000	1,847,500	1,597,500
Penitentiary	1,566,000	1,358,000	1,215,000
School of Science (U of I)	4,709,000	4,254,000	3,785,000
Mental Hospital (St. Hosp. S.)	2,024,000	1,905,000	1,660,000
University of Idaho	3,645,000	3,504,000	3,110,000
Total	\$69,640,000	\$56,981,500	\$55,105,200

- ◆ The endowment fund investment board was unable to make the fiscal year 2003 appropriation for public schools of \$43,313,000.